

Message Text

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TAGS: AORG, AFIN, IAEA

SUBJECT: IAEA CY 1975 BUDGET

1. SUMMARY: AGENCY PROPOSES \$1.0-MILLION CONTINGENT FINANCING APPROPRIATION FOR CY 1975, WITH UTILIZED BALANCE FROM SIMILAR 1974 APPROPRIATION TO BE RETURNED TO MEMBERS AS CREDIT AGAINST ASSESSMENTS FOR CY 1975. SUCH APPROPRIATION WOULD HELP PROTECT AGENCY FROM FUTURE REQUIREMENT FOR 1975 SUPPLEMENTAL, OR DRASTIC ECONOMIES, IN SITUATION OF FLOATING EXCHANGE MARKET, AND WOULD ASSIST IN AVOIDING INCREASE IN LEVEL OF WORKING CAPITAL FUND FOR CY 1975. AGENCY REQUESTED RESPONSE EARLY IN WEEK OF FEBRUARY 18. ACTION REQUESTED: AUTHORIZATION TO INDICATE TO AGENCY THAT US COULD ACCEPT THIS APPROACH. END SUMMARY.

2. AGENCY SECRETARIAT (ENROR, US, DIRECTOR OF DIVISION OF BUDGET AND FINANCE) HAS APPROACHED MISSION FOR INDICATION OF US VIEWS ON PROPOSAL OF APPROPRIATION FOR CONTINGENT FINANCING FOR CY 1975. AS DEPT AWARE, SUCH APPROPRIATION WAS INCLUDED IN CY 1974 BUDGET, IN AMOUNT WHICH FINALLY TOTALLED \$4.6-MILLION, TO COMPENSATE FOR EFFECTS OF CURRENCY FLUCTUATIONS SUBSEQUENT TO PREPARATION OF BUDGET IN EARLY 1973. IF EXCHANGE RATES MAINTAIN ROUGHLY CURRENT LEVELS, AGENCY ANTICIPATES

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REQUESTING BOARD IN JUNE TO AUTHORIZE USE ONLY OF ABOUT

\$2.0-MILLION OF THIS AMOUNT (REQUEST MAY BE INCREASED BY \$300,000-400,000 IF US DOLLAR/AUSTRIAN SCHILLING RATE FAILS TO CLIMB OVER CURRENT VALUE OF AS 20.38 TO \$1.00 DURING BALANCE FIRST HALF OF YEAR).

3. ENNOR POINTED OUT THAT CURRENT FLOATING EXCHANGE MARKET GAVE NO PROMISE OF RETURNING TO FORMER STABILITY OF FIXED PARITIES ANYTIME IN NEAR FUTURE. CY 1975 BUDGET HAS BEEN CALCULATED AT RATE OF AS 21.00 TO \$1.00, AND ANY PATTERN OF RATES AVERAGING CONSISTENTLY BELOW THIS FIGURE WOULD CUT SERIOUSLY INTO AGENCY PROGRAM UNLESS COMPENSATED. AGENCY WOULD GREATLY PREFER NOT RPT NOT TO BE FORCED INTO REQUESTING SUPPLEMENTAL FOR CY 1975.

4. SUGGESTED ALTERNATIVE IS TO CONTINUE TO APPROPRIATE CONTINGENT FINANCING SECTION IN CY 1975 BUDGET, WHICH NOW IN DRAFT AND WILL GO TO PRESS DURING WEEK OF FEBRUARY 18. AGENCY FEELING IS THAT REPETITION OF DISASTEROUSLY LOW EXCHANGE RATES DURING MIDDLE OF 1973 IS NOT RPT NOT LIKELY, AND THAT AMOUNT OF \$1.0-MILLION SO APPROPRIATED WOULD SERVE TO EFFECTIVELY PROTECT AGENCY FROM MAJOR ADVERSE EFFECTS DUE TO EXCHANGE FLUCTUATIONS DURING CY 1975. AMOUNT WOULD BE APPROPRIATED SUBJECT TO SAME CONDITIONS AS FOR COMPARABLE APPROPRIATION IN CY 1974 BUDGET, I.E., FUNDS TO BE UTILIZED ONLY TO COMPENSATE FOR ADVERSE EFFECTS OF CURRENCY FLUCTUATIONS ON DOLLAR FIGURES APPROPRIATED FOR APPROVED PROGRAMS, AND THEN ONLY WITH APPROVAL OF BOARD OF GOVERNORS PRIOR TO USE.

5. ESSENTIALLY SAME RESULT COULD BE OBTAINED, FROM CASH STANDPOINT, FROM INCREASE IN WORKING CAPITAL FUND. HOWEVER, USE OF WCF FUNDS WOULD BE CONSIDERABLY LESS CIRCUMSCRIBED AS TO PURPOSE, AND AT SAME TIME WOULD NOT RPT NOT COVER PROBLEM OF BUDGETARY SHORTAGES IN APPROPRIATED PROGRAM FUNDS UNLESS WCF DRAWN DOWN AND LATER USED TO COVER SUPPLEMENTARY BUDGETARY AUTHORIZATION. ABSENT CONTINGENT FINANCING APPROPRIATION, ENNOR SAID HE WOULD NOT FEEL SAFE WITHOUT INCREASE IN WCF. WITH SUCH APPROPRIATION, AND ASSUMING THAT ALL MAJOR CONTRIBUTORS LIMITED OFFICIAL USE

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CONTINUE TO ADHERE TO SAME SCHEDULES FOR PAYMENT OF ASSESSMENTS AS IN 1973 AND 1974 (MOST HAVE ALREADY INFORMALLY ASSURED HIM THAT THEY WILL DO SO), ENNOR FEELS CHANCES GOOD THAT NO RPT NO INCREASE IN WCF FROM PRESENT LEVEL OF \$2.0-MILLION WOULD BE REQUIRED FOR 1975.

6. WITH REGARD TO UNUTILIZED AMOUNT OF APPROXIMATELY \$2.6-MILLION IN CONTINGENT FINANCING APPROPRIATION FOR

1974, ENNOR STATED THAT IN NORMAL COURSE OF EVENTS THIS WOULD ULTIMATELY BE RETURNED TO MEMBERS ALONG WITH FINAL CASH SURPLUS (IF ANY) FOR 1973 AS CREDIT AGAINST PAYMENT OF ASSESSMENTS FOR CY 1976. GIVEN SPECIAL NATURE THIS APPROPRIATION, HOWEVER, AND FACT THAT FUNDS CANNOT BE UTILIZED FOR ANY OTHER PURPOSE, ENNOR FEELS THAT IT WOULD BE INEQUITABLE FOR AGENCY TO RETAIN THIS AMOUNT FOR NO PURPOSE FOR SUCH A LONG PERIOD. ACCORDINGLY, ASSUMING BOARD WOULD AGREE TO WAIVE APPLICATION OF FINANCIAL REGULATIONS TO THIS AMOUNT, SECRETARIAT WILL PROPOSE AS PART OF PACKAGE THAT IT APPEAR IN CY 1975 BUDGET AS CREDIT ITEM REDUCING TOTAL AMOUNT OF ASSESSMENTS ON MEMBERS. EFFECT OF THIS PROCEDURE, IF CONTINGENT FINANCING APPROPRIATION FOR CY 1975. IS \$1.MILLION, WOULD BE NET REDUCTION OF AMOUNT ASSESSED AGAINST MEMBERS BY \$1.6-MILLION (OR LESS IF MORE THAN \$2-MILLION MUST BE USED IN 1974). BASED ON CURRENT PROJECTIONS OF OTHER INCOME FOR CY 1975, AND OF EXPENDITURES WHICH WILL PROBABLY BE PROPOSED IN 1975 BUDGET, THIS WOULD RESULT IN EITHER SMALL INCREASE OR NET DECREASE IN TOTAL AMOUNT ASSESSED ON MEMBERS FOR THAT YEAR.

7. ENNOR STATED THAT AGENCY HAS NOT RPT NOT, TO HIS KNOWLEDGE, DISCUSSED THIS PROPOSAL WITH ANY OTHER GOVERNMENT, PENDING RECEIPT OF US REACTION, BUT WOULD REQUIRE TIME TO CONSULT WITH SEVERAL OTHER MISSIONS BEFORE SENDING BUDGET TO PRINTER WITH THIS INCLUDED. MISSION HAS ADVISED HIM THAT WE WOULD REQUEST GUIDANCE FOR RESPONSE NLT TUESDAY, FEBRUARY 19, TO PERMIT TIME FOR FURTHER CONSULTATIONS AND STILL ALLOW BUDGET TO GO TO PRESS ON SCHEDULE.

8. COMMENT: MISSION FEELS THAT PROPOSED AGENCY COURSE OF ACTION IS AN EXCELLENT ONE. INCREASING URGENCY OF LIMITED OFFICIAL USE

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ACUTE US INTERESTS IN SEVERAL AGENCY PROGRAMS IN VIEW OF ENERGY SITUATION WILL PRECLUDE DRASTIC REDUCTIONS TO EFFECT SAVINGS IN CY 1975, AND ANOTHER SUPPLEMENTAL APPROPRIATION COULD EASILY GET INTO SERIOUS TROUBLE WITH MEMBERS AND FORCE SUCH REDUCTIONS. CONTINUATION OF CONTINGENT FINANCING SECTION UNDER PREVIOUS CONDITIONS WOULD PROTECT AGAINST SUCH SITUATION. EVEN GIVEN UNCERTAINTY OF ANY FINANCIAL PROJECTIONS OVER A YEAR IN ADVANCE IN FLOATING EXCHANGE MARKET, IT NOT RPT NOT LIKELY THAT ANY FORESEEABLE FLUCTUATIONS WOULD BE SEVERE ENOUGH OR LAST LONG ENOUGH FOR EFFECTS TO EXCEED PROPOSED \$1-MILLION APPROPRIATION. NET REDUCTION IN AMOUNT ASSESSED ON MEMBERS WHICH THIS APPROACH WOULD ENTAIL ALSO APPEALS GREATLY TO US, NOT ONLY AS IT WOULD REDUCE AMOUNT WHICH US WOULD HAVE TO PAY DURING NEXT CY BUT BECAUSE OF USEFUL

POLITICAL BENEFIT IN YEAR WHEN US RATE OF ASSESSMENT WILL
BEGIN TO DECREASE IN IAEA. FINALLY, MAINTENANCE OF WCF
AT \$2-MILLION FOR THIRD SUCCESSIVE YEAR, DESPITE INCREASE
IN AGENCY CASH FLOW AND UNCERTAIN GENERAL CURRENCY SITUATION,
SEEMS TO US DESIRABLE EXAMPLE OF SELF-RESTRAINT WHICH, SO
LONG AS IT CAN BE ACHIEVED IN MANNER CALCULATED TO PROTECT
AGENCY PROGRAM, STRIKES US AS WORTHY OF SPECIAL CONSI
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